

**AIR COMMAND AND STAFF COLLEGE
AIR UNIVERSITY**

SUSTAINING THE AFGHAN ECONOMY

By

Mukesh Kumar Yadav, Wg Cdr, Indian Air force

A research report submitted to the faculty

In partial fulfillment of graduation requirements

Advisor: Dr. Jonathan K. Zartman

Maxwell Air Force Base, Alabama

March 2010

Distribution A: Approved for public release; distribution unlimited

Disclaimer

The views expressed in this academic research paper are those of the author and do not reflect the official policy or position of the US government or the Department of Defense. In accordance with Air Force Instruction 51-303, it is not copyrighted, but is the property of the United States government.

Contents

Disclaimer	ii
Preface	iv
Introduction	1
Part I: Afghan Economy in Last Five Decades.....	1
Part II: Sustainable Sources of Income.....	3
Part III: Recommendations.....	5
Conclusion.....	7
Notes	8
Bibliography	9

Preface

Decades of conflict in Afghanistan have ruined its economy and infrastructure. For the last five decades, the economy is heavily dependent on foreign aid and illegal narcotics trade with neighboring countries. Currently, the US led coalition is struggling to find solution to the Afghan problem and majority of their efforts are directed at improving the security situation. The international community has also pledged financial support for reconstruction of Afghanistan. My motivation for this research is based on the fact that no amount of international assistance can be sufficient for a lasting solution unless the Afghan government finds sustainable sources of income to support its effective functioning.

I strongly believe that a stable Afghanistan will be pivotal in bringing peace and prosperity to the entire South Asian region. The use of Afghan soil for terrorist activities across the globe has been a matter of deep concern to the international community. The only way for Afghan government to empower itself in taking effective control over its territory is to generate enough revenue to sustain its security forces and other institutions. My paper examines the dependence of Afghan economy on foreign aid and highlights some of the sustainable sources of income.

This research paper could not have been possible without the support and guidance from my advisor, Dr Jonathan K. Zartman. His extensive knowledge about the culture and historical background of the region was valuable in broadening my understanding of the Afghan problem.

SUSTAINING THE AFGHAN ECONOMY

Introduction

Afghanistan is struggling to recover from decades of conflict; these conflicts have adversely affected the economy and destroyed the scarce infrastructure in the country. It remains one of the poorest countries in the world and decades of conflict have created a largely decentralized economy dependent mainly on international aid and trade with neighboring countries. As the international community steps up efforts for possible long term solutions to the problem of instability and terrorism in Afghanistan, there is need for an urgent attention to stabilize the economy along with the security situation. The current focus of international community is on improving the security situation, but for lasting solution the Afghan government should be able to financially support its security forces and other government institutions. This paper will analyze Afghan economy for last five decades and highlight the present state of economy and it's almost complete dependence on international aid. It will also explore some of the viable and sustainable sources of income and then recommend a few measures for sustaining the economy.

Part I

Afghan Economy in Last Five Decades

In order to find viable solutions for sustaining the economy, it is important to understand the historical background and state of Afghan economy for a few centuries, but restricting the scope of this paper and keeping it relevant to the current circumstances, a quick glance over last five decades provides an overview to the current economic problems. In the last five decades, Afghanistan has never been a self sufficient economy. During the Cold War, its strategic position made it recipient of large aid from the Soviet Union as well as the United States. In the

1960s, foreign aid accounted for 40 percent or more of the Afghan budget. As this aid declined in the late 1960s, natural gas exports from the northern region to the Soviet Union replaced it and accounted for almost 50 percent of its budget. Agriculture and pastoralism accounted for 60 percent of GDP in the 1970s and about 85 percent of the population depended on rural economy for its livelihood.¹

The Soviet war devastated the rural economy and most of the population fled to Pakistan and Iran, where it depended largely on international aid. The landlocked geography and vulnerable trade routes encouraged local landlords to deal in illegal arms and opium trade, which further undermined the central government's control over economy. By 1987, the revenue from the natural gas export dried up completely due to poor maintenance and lack of trained technicians, as the Soviets pulled out its technicians.² Post Soviet war in 1990s, the Afghan economy was totally devastated as almost the entire infrastructure of roads and canals was destroyed. The agricultural land, too, was sown with landmines causing enormous economic loss.

In the mid 1990s, under the Taliban regime, a certain degree of order returned and economy revived largely on account of agricultural production, livestock and substantial remittance from refugees who received large international aid in Pakistan and Iran. A major source of income was illegal opium trade and re-export of goods to Pakistan. In 1996, illegal trade with Pakistan accounted for over \$2 billion.³ Post September 11, 2001, under the Karzai government the Afghan economy has been largely sustained by international aid. The 2007 budget estimates expected revenue of \$1.1 billion, compared to government expenditures of \$3.3 billion.⁴ In the immediate aftermath of the US led War on Terror, the international community pledged over \$25 billion in aid but a recent Oxfam report suggests that only \$15 billion has been

delivered so far.⁵ The US military spends close to \$100 million a day in Afghanistan; a large part of it contributes to the Afghan economy.⁶ This brief overview amply highlights that Afghan economy has been substantially dependent on international aid for more than half a century.

Part II

Sustainable Sources of Income

Agriculture has been the dominant contributor to Afghan economy. It contributes 31 percent to the GDP and provides employment and livelihood to about 80 percent of the population.⁷ Last few decades of conflict and drought have adversely affected the agricultural sector. Developing this sector is critical for economic stability, employment and narcotics problem. The magnitude of narcotics problem can be judged by the fact that 90 percent of world's illicit opium comes from Afghanistan and the total export of poppy cultivation and its derived opiates reached \$3 billion in 2008.⁸ The total arable land area is about 12 percent, of which only 6 percent is cultivated.⁹ Before the Soviet invasion in 1979, Afghanistan had 2.5 million hectares of irrigated land, which has now dwindled to about 1.5 million hectares, mainly due to destruction caused by years of war.¹⁰ There is a need to develop the potential for irrigation and restore the cultivable land. There is also a need to provide sufficient incentives and security to the local farmers to discard poppy cultivation. At present over 190,000 hectares of land is being used for poppy production, this, if converted to wheat production, can ensure food security to almost the entire Afghan population.¹¹

Afghanistan is a landlocked country and it straddles major trade routes, running both east and west, and between north and south. Afghanistan shares borders with six neighbors: Pakistan, Iran, Turkmenistan, Uzbekistan, Tajikistan, and China. Destruction of the frail infrastructure and a general sense of insecurity during decades of conflict have deprived the people of Afghanistan

from their ability to exploit its strategic location. With reconstructed infrastructure, Afghanistan can function as strategic gateway, providing landlocked countries to north with access to Iranian and Pakistani seaports to the south. For the Central Asian republics and Russia, Afghanistan offers the shortest route to open sea.¹² It also intervenes as a geographical buffer between energy rich Central Asia and rapidly growing energy deficient Indian subcontinent. Cross-border trade and energy transit revenues can be a major source of income and potentially capable of sustaining Afghan economy, as long as the transit routes are open and secured.

The possibility of exploiting natural gas transit was explored in 1990s. With international sanctions imposed on Iran, the feasibility of transporting Central Asian natural gas to energy deficient Pakistan and possibly to India has been discussed for last two decades. The Turkmenistan, Afghanistan, Pakistan and India pipeline project (TAPI) is one such project. The planned project is estimated to carry 0.7 trillion cubic feet (tcf) of natural gas from Turkmenistan via Afghanistan to Pakistan and India.¹³ Afghanistan could earn an estimated \$300 million per year.¹⁴ This will also generate job opportunities for thousands of local Afghans. The possibility of these pipelines reaching Karachi port can open the tremendous Central Asian reserves to rest of the world. The shared revenues will boost the economy of entire region.

As these projects are discussed, there is always skepticism about their success in regard to safety of these pipelines. This will require a strong Afghan security force and strong government system. The US led effort in providing a stable government needs to focus on success of these projects, and simultaneously, to sustain the government in Kabul. US influence in the region, especially in Pakistan and Afghanistan, is the key to a lasting solution to stability in the region.

Mineral, natural gas and oil reserves are being explored in Afghanistan. There are very strong indicators that the hidden treasure beneath the rugged terrain can turn the fortunes for the country. Dr. Bonita Chamberlin, a California based geologist, disclosed to American Free Press that she has identified 91 minerals, metals and gems at 1,047 documented potential mining sites in Afghanistan. These sites also contain solid combustible minerals, metallic and non-metallic minerals, rare metals, radioactive elements, precious metals and gemstones, salt and industrial minerals.¹⁵ These prospects have been reconfirmed by President Hamid Karzai. In a recent media interview, he asserted that their mineral reserves are worth a thousand billion dollars. He credited his assertion to a survey being carried out by the United States Geological Survey (USGS), due to be completed in a couple of months.¹⁶

China and India are leading bidders for mining contracts. In 2007, China's state-owned metals giant, the Metallurgical Group Corporation, signed a three billion dollar contract to develop the Aynak copper mines over next 30 years. These are among the world's biggest copper mines. The Hajigak iron ore mines in Bamiyan province, north of Kabul, are currently under tender, with one Chinese and half a dozen Indian firms bidding.¹⁷ These are all positive indicators of economic development and have the potential to generate employment and sustainable revenue for the government in Kabul.

Part III

Recommendations

In Afghanistan, improvement in security situation and economic development are not mutually exclusive. In fact, both the issues are so interdependent that focus on only one will derail the entire stability effort. The first recommendation for sustaining the economy in Afghanistan, therefore, is creating effective military, paramilitary and police force. The

international community continues to assist by providing financial aid and training to security forces, but the current situation cannot be sustained for long. The Afghan government must find sustainable sources of income; subsequent recommendations are focused on this aspect.

As brought out earlier, the promised international aid to Afghanistan has not been fully delivered. The international community must fulfill its commitment by providing the promised aid. This aid is extremely vital in the initial decades of rebuilding. The government institutions will take time to establish, meanwhile, the international community must be supportive and encouraging and needs to have patience.

The next recommendation is to develop the agricultural infrastructure. The Afghan government and the international community must focus on rebuilding the irrigation system and exploring ways to increase cultivable land and its productivity. A viable and profitable alternative for illicit poppy cultivation will have multifold benefits. Improvement in agricultural infrastructure will also generate employment and ensure food security for the population.

Development of surface and energy transportation infrastructure is another important recommendation. As discussed earlier, if the network of roads and rails is robust enough, the geographical location of Afghanistan can be source of huge revenue. Alongside, there is a need to build infrastructure for energy transportations from Central Asia to Indian Subcontinent. This too, can generate enormous sustainable revenue.

Another recommendation for sustaining the economy is to tap the mineral and other natural resources in Afghanistan. There is ample appetite in the international community for the minerals, natural gas and oil in Afghanistan. A healthy completion for resources will increase revenue for the Afghan government. The international community must encourage private and public sector undertakings to participate in utilizing the resources of this mineral rich nation.

They also need to give sufficient participation to local Afghan population; this will generate employment and acceptance of international community in exploiting the riches of Afghanistan.

Conclusion

The people of Afghanistan have suffered for long as a result of decades of conflict. The near absence of government institutions had created safe haven for extremist groups and terrorists. They have operated with utmost comfort and safety from the Afghan soil. Illicit trade of arms and opium has been the primary funding source for these activities. Post September 11, the US led coalition has been successful in overthrowing the Taliban regime and establishing a government which can provide necessary impetus for a stable Afghanistan. The government in Kabul has been supported by the international community, but for a long term solution it must find sustainable sources of income. A stable and economically viable Afghanistan will provide rich dividends not only to its neighbors but to large international community by potentially eliminating source of terror and narcotics, and linking the energy rich Central Asia to rest of the world.

Notes

¹ Barnett R. Rubin, *“The Political Economy of War and Peace in Afghanistan”* (New York: The EurasiaNet).

² Ibid.

³ John Wall and William Byrd, *“Brief overview of Afghanistan’s Economy”*(www.mafhoum.com, 2001).

⁴ “The World Factbook-Afghanistan” (Washington DC: CIA, 2009).

⁵ Tendai Maphosa, *“Donors fail to keep promises to Afghanistan”* (VOA News, Mar 25, 2008).

⁶ Ibid.

⁷ “The World Factbook-Afghanistan” op. cit.

⁸ Blanchard M. Christopher, *“Afghanistan: Narcotics and U.S. Policy”* (Washington D.C.: Congressional Research Service, RL 32686, Aug 12, 2009).

⁹ U.S Department of Agriculture- Factsheet, *“USDA at Work for Agriculture in Afghanistan”* (Washington D.C.: Jan 2010).

¹⁰ IRIN FAO Expert, *“Afghanistan: Tremendous potential for food self-sufficiency”* (Kabul: April 17, 2008).

¹¹ Ibid.

¹² Amina Khan, *“Trans-National trade with focus on Afghanistan”*(Carlisle: Strategic Studies, Winter 2007) p82.

¹³ Energy Information Administration, *“Caspian Sea Region : Natural Gas Export Options”*(Washington D.C.: Jul 2002).

¹⁴ Travis Lupick, *“Afghan Pipeline raises security questions”* (Montreal: Centre for Research on Globalization, Jul 21, 2008).

¹⁵ Christopher Bolln, *“Mineral rich Afghanistan a valuable corporate property”* (Washington D.C.: American Free Press, Aug 16, 2006).

¹⁶ AFP News, *“Afghan geological reserves worth a trillion dollars”* (Kabul: Jan 31, 2010).

¹⁷ Ibid

Bibliography

AFP News. *Afghan geological reserves worth a trillion dollars*. Kabul: Jan 31, 2010. Available from <http://www.google.com/hostednews/afp/article/ALeqM5hRUjsdkyv4fR8fP-DxtA-G9g4mlg> (accessed on Mar 01, 2010).

Bollyn, Christopher. *Mineral rich Afghanistan a valuable corporate property*. Washington D.C.: American Free Press, Aug 16, 2006. Available from http://cache.zoominfo.com/CachedPage/?archive_id=927526097&page_id=475683330&page_url=%2f%2fwww.btpholdings.com%2fafpart4.html&page_last_updated=8%2f16%2f2006+4%3a54%3a01+AM&firstName=Bonita&lastName=Chamberlin (accessed on Feb 20, 2010).

Christopher, Blanchard M. *Afghanistan: Narcotics and U.S. Policy*. Washington D.C.: Congressional Research Service, RL 32686, August 12, 2009. Available from <http://www.fas.org/sgp/crs/row/RL32686.pdf> (accessed on Mar 10, 2010)

Energy Information Administration. *Caspian Sea Region : Natural Gas Export Options*. Washington D.C.: Jul 2002. Available from <http://www.eia.doe.gov/emeu/cabs/caspase.html> (accessed on Jan 29, 2010)

Integrated Regional Information Networks (IRIN) FAO Expert. *Afghanistan : Tremendous potential for food self-sufficiency*. Kabul: Apr 17, 2008. Available from <http://www.irinnews.org/Report.aspx?ReportId=77814> (accessed on Jan 20, 2010)

Khan, Amina. *Trans-National trade with focus on Afghanistan*. Carlisle: Strategic Studies, Winter 2007.

Lupick, Travis. *Afghan Pipeline raises security questions*. Montreal: Centre for Research on Globalization, Jul 21, 2008. Available from <http://www.globalresearch.ca/index.php?context=va&aid=9640> (accessed on Feb 3, 2010)

Maphosa, Tendai. *Donors fail to keep promises to Afghanistan*. VOA News, Mar 25, 2008. Available from <http://www1.voanews.com/english/news/a-13-2008-03-25-voa61-66635307.html> (accessed on Feb 2, 2010)

Rubin, Barnett R. *The Political Economy of War and Peace in Afghanistan*. New York: The EurasiaNet. Available from http://www.eurasianet.org/resource/regional/rubin_on_afgistan.html (accessed on Jan 24, 2010).

The World Factbook-Afghanistan. Washington D.C.: CIA, 2009. Available from <https://www.cia.gov/library/publications/the-world-factbook/geos/af.html> (accessed on Jan 28, 2010)

U.S Department of Agriculture- Factsheet. *USDA at Work for Agriculture in Afghanistan*. Washington D.C.: Jan 2010. Available from http://www.fas.usda.gov/country/Afghanistan/FAS%20Afghanistan%20Fact%20Sheet_1.6.10.pdf (accessed on Feb 25, 2010).

Wall John and Byrd William. *Brief overview of Afghanistan's Economy*. Mafhoum.com, 2001. Available from <http://www.mafhoum.com/press2/71E12.pdf> (accessed on Feb 1, 2010).